May 15, 2014

Hon. Melvin L. Watt
Director
Federal Housing Finance Agency
400 7th Street, S.W.
Washington, DC 20024

Re: Enterprise Duty to Serve, RIN 2590 – AA27

Dear Director Watt,

The undersigned organizations and individuals thank you for committing to revisit the "duty to serve" rule in the 2014 Strategic Plan and urge you to move forward in implementing the rule. This rule charges the Enterprises with providing "leadership to the market in developing loan products and flexible underwriting guidelines to facilitate a secondary market," supporting very low- to moderate-income families in manufactured housing, affordable housing preservation, and rural markets.

The underlying environment has changed significantly since FHFA issued its proposed duty to serve rule in 2010, so we request that FHFA consider whether it needs to re-propose its rule or at least make significant changes. When the proposed rule was issued, the Enterprises were still drawing money from the Treasury, the foreclosure crisis was at its peak, and the Dodd-Frank Act had not yet been passed. Since then, the Enterprises have returned to profitability, foreclosures are down, and the Dodd-Frank Act has created a regulatory regime establishing national standards for mortgage origination and servicing. Despite gains in home prices in many markets, access to credit remains unusually tight and mortgage origination volumes are at their lowest level in 17 years.

As FHFA enters what might be considered the second phase of conservatorship, FHFA has the opportunity to make the rule stronger than its original proposal. We urge FHFA to help the Enterprises fulfill their public purpose by creating a rule that encourages responsible innovation, market leadership, and proactive service of underserved markets.

Below, we offer a list of thoughts on the content of the rule based on the original proposed rule. However, we look forward to providing much more detailed comments as we learn more about whether the rule will be re-proposed.

- FHFA should consider Enterprise purchase of chattel manufactured housing loans under duty to serve if (and only if) these loans are coupled with strong underwriting and consumer protection standards. In particular, these loans must be underwritten for a borrower's ability to repay the loan (and current lot rent, if applicable) and meet the Qualified Mortgage standard. FHFA should also, after detailed analysis, impose an APOR rate cap on eligible chattel loans. Further consumer protection standards for chattel loans, including provisions for security of land tenure, are necessary in order to ensure that the Enterprises participate responsibly in this market.
- FHFA should retain the duty to serve benefit for manufactured housing mortgages in fee-simple transactions.
- Only loans to resident-owned communities and to communities owned by mission-driven entities should receive favorable consideration under duty to serve. This standard would

exclude loans to for-profit investor-owned communities, but would include loans to mission-driven entities such as public housing authorities, limited equity cooperatives, and land trusts.

- The duty to serve requirement for affordable housing preservation should go beyond existing subsidy programs to encourage the Enterprises to proactively support this market through new products, flexible underwriting, affirmative outreach, and other activities. For example, FHFA should encourage the Enterprises to support preservation efforts that encourage energy efficiency and to innovate in serving existing small multifamily properties. Likewise, the Enterprises should be encouraged to form partnerships with high-performing CDFIs and non-profits, including but not limited to extending letters of credit to stable, mission-minded nonprofit developers and CDFIs in the business of developing or making loans to preserve and improve existing affordable multifamily housing. Finally, the Enterprises should also be encouraged to maintain the affordability of properties in which they have an ownership stake, including when transferring foreclosed properties and when exiting Low-Income Housing Tax Credit deals.
- FHFA can encourage more financing options for single- and multifamily housing in rural areas, particularly by providing incentives for the Enterprises to address rural shortages of quality affordable housing, including farmworker housing. Grants to and partnerships with non-profits that develop rural housing can be an effective tool in expanding Enterprise participation in this market. FHFA should consider giving extra weight to Enterprise efforts in particularly underserved rural regions, such as Central Appalachia, the Border Colonias region, the Lower Mississippi Delta and rural Southeast, and tribal areas.
- FHFA should create an opportunity for the public to review and comment on the Enterprise plans before accepting them. These plans should include an assessment of obstacles that have prevented greater Enterprise participation in these markets as well as proposals to address these obstacles; they should also detail how the Enterprises will meet their obligation to affirmatively further fair housing and increase housing choice. We disagree with the proposed rule's decision to give the investments and grants assessment factor little to no weight, and we urge that the loan product assessment factor be reformulated to encourage the Enterprises to compare their product offerings to others in the market. We also believe that ratings that are more nuanced and granular than merely "satisfactory" or "unsatisfactory" will better encourage the Enterprises to fulfill their obligations under the rule.
- Given the importance of proactive Enterprise service to underserved market segments, FHFA should work with Congress to establish additional markets in which the Enterprises have a duty to serve.

Enterprise leadership in underserved markets remains imperative and achievable. By creating a "duty to serve" rule that encourages responsible innovation, thinks broadly and creatively about Enterprise activities, and gives the Enterprises strong incentives to serve broadly and lead the market, FHFA can help create a healthier and more equitable housing market.

Sincerely,

Americans for Financial Reform

Center for American Progress

Center for Responsible Lending

Consumer Federation of America

Corporation for Enterprise Development

Empire Justice Center

Enterprise Community Partners

Fair Housing Council of the San Fernando Valley

Institute for Community Economics

Kirwan Institute for the Study of Race and Ethnicity, Ohio State University

The Leadership Conference on Civil and Human Rights

Local Initiatives Support Corporation

NAACP

National Consumer Law Center (on behalf of its low-income clients)

National Council of La Raza

National Housing Council

National Housing Resource Center

National Housing Trust

Stewards of Affordable Housing for the Future

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